



CITY OF MINNEAPOLIS PLANNING DEPARTMENT

DOWNTOWN EAST / NORTH LOOP MASTER PLAN

Chapter Three Market Analysis

As a foundation for studying what sort of land use change might be necessary in the Project Area, it was first necessary to determine and understand the development opportunities that are likely to materialize in downtown over the next 20 years.

CHAPTER SUMMARY

Chapter Three summarizes the chief findings of a detailed market analysis of the Project Area. Undertaken in the summer and early fall of 2001, the intention of the market analysis is to identify the existing economic potential within the Project Area and to envision and describe the possibilities for future development in the Project Area. The chapter begins by looking at regional development issues and moves on to an analysis of development forecasts for office, residential, retail, and lodging markets in Downtown Minneapolis over a 20-year time frame. This chapter also discusses the level of influence that light rail transit has in these forecasts and the likely locations for development, thus tying expected market conditions to an analysis of land use planning issues.

After conducting field research, but before proceeding with recommendations for changes to the Project Area, it was important to undertake a market analysis to determine likely levels of real estate development within the Project Area over the course of the next 20 years. The chapter presents a summary of findings regarding the likely volume, character, and locations of various types of development in Downtown East, the North Loop and throughout Downtown Minneapolis. It describes the likely development patterns that would occur if the market were left uninfluenced by new public policies. As such, it sets forth no specific plan or statement of objectives for future development. Rather it provides a view of likely development patterns that might be expected to evolve even in the absence of public policy measures. For this reason, it provides a baseline framework to help identify the Project Area's key planning challenges.

Initial research and analysis of market conditions was conducted

for the entire Central Business District (CBD), which includes the entire area bounded by the freeway loop, the Mississippi River, and Plymouth Avenue North (see Figure 3.1, page 24). The findings presented focus on long-term outlooks and seek to provide three important pieces of information: (1) reasonable forecasts of the volume of supportable development; (2) insights into key factors driving downtown development, and (3) an identification of the niches and locations offering potential for new development in the Project Area.

The full, detailed text containing the research and analysis in support of these findings is presented in a background document entitled *Downtown East/North Loop Master Plan Market Analysis and Development Forecast*. The remainder of this chapter includes a summary of the highlights and salient portions of that analysis.

REGIONAL DEVELOPMENT ISSUES

The Twin Cities regional economy has shown steady and consistent growth over the last decade. In the near-term future, growth is expected to slow along with the national economy. Over a long-term time frame, however, the Twin Cities economy is expected to show continued positive growth – at rates roughly comparable to projected national growth – in employment, gross product, and personal income.

Professional services industries comprise the largest and fastest growing segments of the Twin Cities economy. Continued growth in these sectors provides high paying jobs, driving growth in personal income and creating new opportunities for high quality commercial and residential development.

LEGEND

- HIAWATHA LRT (UNDER CONSTRUCTION)
- TRANSIT STATIONS
- - - PROPOSED RAIL TRANSIT LINES
- - - PROJECT AREA BOUNDARY
- MARKET AREA BOUNDARY

NOTE: This map illustrates the general area referenced as either the Central Business District (CBD) or “downtown”, in Chapter Three: Market Analysis and Development Forecasts.



Figure 3.1 Map of Downtown Minneapolis Market Analysis Area

DEVELOPMENT FORECASTS AND ISSUES

Over a 20-year time frame, the market – uninfluenced by new policies – would be able to support the following volumes of additional development:

- Office use will maintain its role as the dominant use and primary driving force in downtown development.
- The lodging sector will achieve the highest growth rates, driven in part by an infusion of increased convention activity.
- Residential development will play a prominent role, nearly keeping pace with office growth rates.
- Retail development opportunities will face significant constraints, with opportunities limited to specific niches (see Figure 3.2, page 26).

These projections are supported by a variety of different data sets and methodologies, which are presented by individual sector analyses and are included in the Background Report. The key findings of these analyses follow (see Figure 3.3, page 28).

Office Development

Office Market Profile: The Minneapolis Central Business District (CBD) occupies the dominant position in the Twin Cities office market. The CBD contains a total of approximately 23.3 million square feet of private, multi-tenant office space, and 36 million square feet of total public and private space. As such, the CBD accounts for 35 percent of the metropolitan area's leased office inventory and nearly half of the area's Class-A space.

Forecasted Office Development: Over the next 20 years, the CBD office market will be able to support an additional 13 to 17 million square feet of commercial office space, an average of 650,000 to 850,000 square feet annually.

Forecast Methodology: This projection results from three different

methodologies. The first of these applies ten-year regional employment forecasts (prepared by *economy.com*, a nationally recognized economic forecasting firm), and then assumes that the CBD will maintain its current share of regional office employment. The second methodology applies forecasted CBD employment growth rates (as forecasted by the Metropolitan Council) to the current office inventory. The third methodology projects historical employment and development trends – considering 20-year time frames – into the future. Collectively, these three methodologies define a range of roughly 16 to 18 million square feet of office space over a 20-year span. The analysis then adjusts these figures to account for factors such as the difficulty of new development, an increasingly competitive environment, and the likelihood of demolitions and redevelopment within the existing downtown inventory (which would subtract from the projected net increases). Overall, given the range of factors considered and the relatively close convergence of projections based on three different methodologies, this forecast presents a reasonably likely range of new office development for the CBD.

Downtown Core Area Expansion Issues: In order to accommodate the potential market, the area currently defined by the City as the Downtown Core would have to expand – primarily to the east – by the equivalent of eight to twelve fully developed downtown blocks. In recent development practice in downtown Minneapolis, this has most often accommodated 750,000 to 1 million square feet of office development. In weighing alternative policies regarding the extent of Downtown Core expansions, the City should consider the following implications:

- A limited expansion of the Downtown Core would have two outcomes. First, the relative scarcity of new Core Area properties available for high-intensity development would generate land price increases in the newly expanded core, which would in turn lead to higher-density development in these areas. Second, it would create strong incentives for the redevelopment of lower-intensity buildings already located within the

	20-Year Projections for the Entire CBD	Project Area Development / Locations		Alternatives in the CBD but Outside Project Area	CHAPTER 1
		North Loop	Downtown East		
OFFICE SPACE (SQ. FT.)	13-17 million sq. ft.	2-4 million sq. ft.	8-12 million sq. ft. Class-A in expanded core area	New projects in existing Downtown Core and along Central Riverfront	CHAPTER 2
RESIDENTIAL (DWELLING UNITS)	4,000-5,000 du's	750-1,500 du's High end attached housing near: <ul style="list-style-type: none"> Entertainment destinations Light rail station 	750-1,500 du's Moderate pricing on inexpensive land; Elliot Park	Riverfront; Elliot Park; Loring Park; Existing Downtown Core	CHAPTER 3
RETAIL SPACE (SQ. FT.)	700,000-1 million sq. ft.	300-400,000 sq. ft. Eating & Drinking near: <ul style="list-style-type: none"> Entertainment destinations Emerging office & residential areas 	300-450,000 sq.ft. Grocery along major traffic corridors; convenience/services in skyway; eating and drinking establishments	Riverfront; Existing Downtown Core; Loring Park; Elliot Park	CHAPTER 4
LODGING (ROOMS)	3,700-4,100 rooms	750-1,000 rooms near: <ul style="list-style-type: none"> Entertainment destinations 	1,000-1,500 rooms; Expanded Downtown Core	Convention Center Existing Downtown Core; Riverfront	CHAPTER 5
					CHAPTER 6
					CHAPTER 7

Figure 3.2 Development Niches and Locations

existing core. A limited expansion would also leave more land available for alternative types of development in the areas of Downtown located outside of the Core.

- On the other hand, if expansion of the Core were to extend across a broader area, rising land values throughout the more broadly defined high-intensity development area would constrain the economic viability of alternative, lower-return land uses (e.g. housing) throughout the expanded core.

North Loop Renovation Projects: While renovation activity has occurred at a pace of roughly 100,000 square feet/year, the market's ability to sustain this pace will be constrained by the increasing scarcity and cost of older buildings. This constraint, however, may be offset by increasing demand for Class-A, Class-B and high-quality renovated office space in the North Loop.

RESIDENTIAL DEVELOPMENT

Recent Trends: High levels of development activity, rapid absorption, and rapid price increases have characterized recent downtown residential development. Most of the activity has occurred in riverfront locations, with most units serving a high-income market tier. While this market niche continues to deliver strong performances, the development community has begun to explore alternative niches and locations (i.e., Elliot Park and Warehouse District locations not adjacent to the River).

Forecasted Residential Development: Over the next 20 years the market is likely to support an increase of 4,000 to 5,000 new market-rate dwelling units in the CBD.

Forecast Methodology: In preparing this forecast, the analysis applies three different approaches. The first approach examines Metropolitan Council forecasts. The second approach examines historical growth patterns, focusing on five- and ten-year growth trends. These two time frames include a period of rapid develop-

ment (1996-2001) as well as a period of limited development (1991-1996). This analysis rests on the assumption that similar activity cycles will occur in the future. The third approach focuses on the percentage of total regional residential development captured by the CBD in recent years. Examining these shares for the most recent three- and five-year periods, the analysis applies these percentages (1.6 and 2.2 percent respectively) to forecasted metro area household growth. These three methodologies collectively define a range of roughly 200 to 250 dwelling units per year. Over 20 years, this would amount to 4,000 to 5,000 new dwelling units in Downtown Minneapolis as a whole. The analysis then carefully weighed various positive and negative influences including favorable demographic trends, increasing preferences for urban residential settings, slowing rates of long-term regional economic growth, the increasing scarcity of desirable developable sites in the Downtown, difficulties with rising land values, and the availability of competitive sites just outside of Downtown. Overall, based on the relatively close convergence of three different projection methodologies and a careful counterbalancing among a broad range of influences, the forecasted range of 4,000 to 5,000 new units represents a reasonably likely 20-year range of new residential development in Downtown.

Price Niches: Most of the recent riverfront residential developments address the housing market's highest price tiers. A larger market, consisting of households with incomes under \$100,000, would support additional development in various parts of Downtown. Given the relatively high cost – at \$30 to \$55 per square foot – of downtown land, however, new development to serve this market would have to seek lower-priced land parcels in locations offering limited amenities, and in some cases presenting challenges. Examples of such locations might include properties on the eastern fringes of Elliot Park or adjacent to industrial or utility-related land uses. Within the Project Area, the costs of land and development will in most cases drive new residential units to the higher price tiers. In order to ensure the construction of housing within the Project Area that meets the City's existing

20 Year Growth Projection				CHAPTER 1
	Current	Low	High	
OFFICE SPACE (SQ. FT.)	36,000,000			CHAPTER 2
Projected Growth		13,000,000	17,000,000	
Avg. Annual Growth		650,000	850,000	CHAPTER 3
Projected Total in CBD		49,000,000	53,000,000	
20-Year % Increase		36.1%	47.2%	CHAPTER 4
Annualized % Increase		1.6%	2.0%	
RESIDENTIAL (DWELLING UNITS)	11,500			CHAPTER 5
Projected Growth		4,000	5,000	
Avg. Annual Growth		200	250	CHAPTER 6
Projected Total in CBD		15,500	16,500	
20-Year % Increase		34.8%	43.5%	CHAPTER 7
Annualized % Increase		1.5%	1.8%	
RETAIL SPACE (SQ. FT.)	4,550,000			
Projected Growth		700,000	1,000,000	
Avg. Annual Growth		35,000	50,000	
Projected Total in CBD		5,250,000	5,550,000	
20-Year % Increase		15.4%	22.0%	
Annualized % Increase		0.7%	1.0%	
LODGING (ROOMS)	5,400			
Projected Growth		3,700	4,100	
Avg. Annual Growth		185	205	
Projected Total in CBD		9,100	9,500	
20-Year % Increase		68.5%	75.9%	
Annualized % Increase		2.6%	2.9%	

Figure 3.3 DEVELOPMENT FORECASTS – Downtown Minneapolis: 2002-2022

definition of “affordable,” local leaders will need to adopt and support policies that are supportive of that price niche.

Niches and Locations: As development achieves critical mass and begins to attract service retailers and restaurants, the central riverfront and the Warehouse District – including parts of the North Loop – will continue to attract investments in renovated condominium projects. Residential development activity in Downtown East will depend on the extent of the expanded office core, as well as the availability and character of new amenities. Comparatively low land values in Elliot Park and the eastern fringes of Downtown East may provide attractive locations for moderate-priced residential development. However, other locations outside the Project Area – such as the Mills District, inner Elliot Park, Loring Park – and neighborhoods outside of Downtown – such as Uptown, the East Bank, and Cedar Riverside – will become increasingly competitive and desirable, particularly for new housing in moderate price tiers.

RETAIL DEVELOPMENT

Current Conditions: Downtown retail space amounts to approximately 4.5 million square feet, of which 2.6 million is located in the Central Core. In this market, restaurants have achieved rapidly increasing revenues, but the performance of the overall retail market has been uneven. Except for businesses located in prime locations, the market for CBD retail space has experienced high turnover and high vacancies.

Forecasted Retail Development: Over the next 20 years, increasing numbers of resident households, conventioners, and office workers will be able to support an additional 700,000 to 1 million square feet of retail space.

Forecast Methodology: In preparing these forecasts, the analysis incorporated careful consideration of prevailing conditions and performances in various niches and locations. The analysis then

focused on the primary sources of support for additional retail space: Residential, office, and visitor populations and the projected growth of those populations that would come from new office, residential, and lodging development. It attributed standard spending patterns to each of these sources. These spending totals enabled the analysis to derive gross retail revenue growth, which was then translated to supportable retail space estimates.

Niches and Locations: The strongest locations and niches for retail development will focus on: (1) skyway convenience retailers close to office concentrations; (2) two or more grocery stores close to emerging neighborhoods and along high-traffic corridors such as Washington Avenue, Hennepin Avenue, or at freeway access / egress points; and (3) eating and drinking establishments in a broad range of locations near the office core, entertainment destinations, and residential neighborhoods.

LODGING DEVELOPMENT

Current Conditions: In recent years, the lodging market in the CBD has featured healthy occupancy rates, increasing room revenues, and increasing revenues-per-available-room despite an increasing room supply. It should be noted that some weakening of this sector has taken place in the last year.

Forecasted Lodging Development: Hotel growth will be driven by growth in general, downtown business traffic, and convention traffic, spurred by the recent expansion of the Convention Center. Over the next 20 years, the Downtown Minneapolis CBD should be able to support a net increase of 3,700 to 4,100 hotel rooms. These include approximately 1,500 rooms in convention center hotels, which will be located close to the Convention Center. In addition, general business growth will fuel demand for 2,200 to 2,600 additional rooms.

Forecast Methodology: Forecasts for lodging development rest on three sets of considerations: Current market conditions, projected

growth in business activity, and historical trends. Varying methodologies were used to project lodging growth by: (1) applying projected office growth rates, since such business activity (regional as well as local) provides the primary support for downtown lodging; (2) applying historical lodging growth rates that are used to make projections into the future in other parts of the CBD.

Niches and Locations: New hotels will continue to serve primarily business and convention travelers. New lodging development will likely occur in locations that are proximate to the Convention Center, but other desirable locations will include sites with strategic access to the Skyway System. In addition, sites with direct access to light rail or commuter transit stations will provide key advantages.

OTHER ISSUES

Influence of Light Rail: By themselves, light rail transit (LRT) stations will not generate new development projects. Like any other kind of development, development that is proximate to transit stations is driven primarily by basic market supply and demand factors. Other important influences include the availability and suitability of developable (or redevelopable) properties and the availability of various forms of financing. When the market seeks new development options however, proximity to an LRT station is considered an enhancement to the opportunities that are otherwise derived from the basics of supply and demand. Experiences drawn from cities such as Dallas and St. Louis indicate that this enhancement will be particularly strong for downtown hotel developments and for residential projects located on the outskirts of the CBD.

Location Attributes: Various types of development seek different ideal site attributes. In downtown Minneapolis, developers are likely to seek the following types of locations:

- New Class A office projects will seek development sites that are easily accessible to the skyway system;

- New residential developments will seek proximity to amenities such as the riverfront, entertainment venues, and other cultural or recreational amenities. It is important to note that at the same time, the promise of higher returns from competing high-end office developments can often preclude or limit residential development activity in areas where land costs are high;
- Retail developments will typically seek access to, and exposure offered by, proximity to high traffic pedestrian, transit, and automobile circulation routes;
- Lodging locations in Downtown are not subject to absolute prerequisites, but must be able to offer convenient access – via skyway or LRT if possible – to the Downtown office core, the convention center, and / or other downtown destinations.